

### **Background**

On December 17, 2008, the State halted thousands of grant projects supported by General Obligation bond measures (such as Proposition 40, Proposition 50, Proposition 84 and others) and stopped authorization of new bond-funded grants as a means of preserving cash flow during the State's recent fiscal crisis. Proposition 84 is the sole funding source for all projects authorized by the Sierra Nevada Conservancy (SNC).

As a result of the freeze on bond funds, the SNC has been unable to:

1. Pay invoices on existing grants (those authorized in FY 2007-08);
2. Start projects authorized by this Board in December 2008;
3. Fully evaluate and bring forward new recommendations for the remaining applications received last fiscal year (2008-09), including Competitive applications and the second round of Strategic Opportunity Grant (SOG) applications; or
4. Launch a new grant program for the current fiscal year (2009-10).

To preserve as much flexibility as possible, in the event new bond funds were made available before year's end, the SNC Board agreed at its last meeting to extend the life of the remaining FY 2008-09 applications through December 2009; these applications normally would have expired on June 30, 2009. *Note: Staff has included a recommendation regarding how to handle Competitive applications for the Board's consideration later in the meeting, under **Agenda Item XI. Conditional Approval of 2008-09 Competitive Grants.***

The impact of the freeze on our grantees and other organizations throughout the Region has been significant. For example, in a survey conducted with a subset of our grant recipients, 53 percent reported reducing staff hours, 31 percent laid off some staff, 12 percent laid off their entire staff, and 10 percent closed their offices one or more days a week. Others postponed time-sensitive work (such as field studies), lost project partners or contractors due to the delay, and/or incurred additional and unreimbursable expenses or debt to keep their organizations and projects alive. Luckily it appears that very few projects have been rendered unfeasible due to the freeze delays; most appear able to continue with some modifications to timelines, etc.

### **Current Status**

On Earth Day 2009 (April 22) Governor Schwarzenegger announced that the State sold enough bonds to allow some of the frozen grant projects to be restarted. Since that time SNC staff has worked with a number of state agencies to actually make the funds available for grantees. Unfortunately, the path to restarting funding has been complicated and time consuming (discussed in more detail below).

### **Project Restart**

The funds for project restart come from two distinct sources: California General Obligation Bonds sold in March and federally subsidized Build America Bonds (BAB) sold in April. Unfortunately the two bond sales together did not generate enough to fully fund the remainder of all frozen projects. Most agencies, including ours, received only about two-thirds of the total amount they needed. In our case, we received \$9.1 million, while we needed close to \$13 million to fully fund the remaining balances for our existing projects.

To further complicate matters, the April BAB sale was subsidized by the federal government, so the funds generated from this sale have additional constraints, including a requirement that they be used only for on-the-ground “capital” projects and reimbursement of direct capital costs. In other words, the use of BAB funds is generally restricted to acquisition or site improvement/restoration projects (Competitive or SOG Category 1 projects); they cannot be used for outreach, education, research or most kinds of planning projects (many of the SOG Category 2 projects), nor for overhead or administrative expenses on any projects, regardless of category.

The State Treasurer’s Office (STO) and the Department of Finance worked with each agency to complete a proposition-by-proposition, project-by-project review, resulting in a list of projects deemed eligible for BAB dollars and those that are not. The SNC cannot deviate from this list. As a result, we’ve had to look carefully at each of our remaining 173 authorized projects – including overall project budgets and all invoices submitted to date – to determine how much money we have available from each source to facilitate project restart.

Since we don’t have enough funding between the two sources to meet all our commitments, we had to determine a course of action for unfreezing projects that would be as fair and equitable as possible. After considering various alternatives, we thought it was critical to focus on the 142 existing projects from FY 2007-08 that were already in progress before the freeze was enacted. That means that the 31 projects authorized in the first round of FY 2008-09 SOGs will not be able to start until the State sells additional unrestricted bonds.

Within the 2007-08 group, projects that have an on-the-ground focus and are therefore eligible for BAB dollars will have priority, meaning they will receive full funding from the dollars in hand to complete their projects. The projects identified by the STO as ineligible for BAB funds have the choice: they can restart knowing that we only have enough unrestricted funding in hand to cover approximately 50 percent of their unexpended budgets, or they can wait until we have the full amount in hand, assuming that the State will be selling more General Obligation Bonds in the not-too-distant future.

### **Second Round Strategic Opportunity Grant (SOG) Applications**

In consultation with our Board Chair Mike Chrisman and Vice Chair Steve Wilensky, we agreed to continue accepting applications for the second round of SOG applications, with the hope that the freeze on new funding would be lifted before the end of the calendar year. We received 100 eligible applications from that round.

To maintain as much flexibility as possible, the Board decided at its last meeting to extend the “expiration” date on these applications to December 31, 2009. However, because there has been no clear indication to date regarding whether bond funds might be available for new projects this year, staff has not initiated the formal evaluation process for these applications. If there is a reasonably positive indication following this Board meeting that new money will be available soon, we could begin the evaluation process on these applications and seek action from the Board in December to extend the deadline one more time so that we could bring final recommendations to the Board before the end of the fiscal year. If there is no such indication by shortly after the September Board meeting, we would let the applications sunset on December 31, as originally planned.

### **Back Invoices**

We have been able to process virtually all back invoices for grantee work completed prior to the December 17 freeze, for a total of \$973,628. Grantees should have begun receiving these payments in late August. In addition, we’ve communicated with all our 2007-08 grantees letting them know how much money they have available to restart their projects, as well as with the December 2008 awardees whose projects have to wait for the next bond sale.

### **Next Steps**

SNC Program staff is working with restarted grantees to amend their deliverable schedules, budgets and project end dates to reflect changes brought about by the freeze delays. In addition, SNC’s Funding and Resource Development Coordinator, Marji Feliz, and Program staff continue searching for additional, non-SNC funding opportunities, workshops and resources for grantees, frozen applicants and other organizations throughout the Region. Marji compiles funding information into a bi-weekly alert, which she posts on the SNC Web site. Each time she updates the Web site, an email goes out to more than 1,000 people in the Sierra Nevada, including nearly 100 individuals who have signed up for our funding-specific mailing list. To date we have been able to highlight more than 160 different resources of potential interest to our stakeholders and partners in the Region.

**Recommendation**

This is an informational item only; no formal action is needed by the Board at this time, although Boardmembers are encouraged to share their thoughts and comments.

A more specific recommendation regarding disposition of the 2008-09 Competitive grant applications and potential for a new grant program in 2009-10 is included under Agenda Item XI, Conditional Approval of 2008-09 Competitive Grants.